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**Citing Continued Recording Piracy, U.S. Suspends Ukraine's
Special Duty-Free Status and Issues Preliminary Sanctions List**

WASHINGTON – The United States Government today decided to suspend the special duty-free status for Ukrainian products and issued a preliminary list of other products that could face sanctions, due to Ukraine's persistent failure to curb unauthorized production of optical media products (CDs, CD-ROMs, DVDs, etc.). U.S. industries have estimated that this massive piracy has caused over \$200 million in annual damages and has disrupted markets throughout the region and beyond.

"The United States has been urging Ukraine to take measures to stop the production of pirated optical media products for over two years. Yet the problem persists," said U.S. Trade Representative Robert B. Zoellick. "Pirating U.S. intellectual property cheats Americans – it's wrong. Such intellectual property piracy also hurts Ukraine and cheats their own creative artists. Their inaction undermines investment opportunities and weakens innovation, creativity, and technology in the marketplace.

"The United States is moving forcefully to protect our rights and, if necessary, we will impose trade sanctions," said Zoellick. "We welcome foreign products into our markets, but we insist that we be treated fairly in return."

Despite discussions with Ukrainian government officials over the past two years and a commitment by Ukraine to address the problem of rampant piracy, the unauthorized reproduction of optical disk media continues to grow.

Ukraine's special status comes from the U.S. Generalized System of Preferences (GSP), a program designed to foster economic growth between the U.S. and developing GSP beneficiaries. The GSP program provides duty-free access to the U.S. market for most products of developing and least developed countries that have been designated by the United States as GSP beneficiary countries.

Background

Ukraine is the largest producer and exporter of pirated optical media products in Europe, according to U.S. recording industries. Ukraine's exports of unauthorized compact discs (CDs) are disrupting markets throughout the region and beyond. For over two years, the United States has been urging Ukraine to take measures to stop this piracy and prevent its recurrence. Despite the commitments Ukraine made as part of the June 2000 U.S.-Ukraine Joint Action Plan to Combat Optical Media Piracy in Ukraine, the Ukrainian Government has failed to curtail the piracy. The two principal elements of this Joint Action Plan were that Ukraine (1) would immediately use its existing law enforcement authority to stop the piracy and (2) by November 2000 would establish an optical media licensing regime, which would serve to prevent a subsequent recurrence. Unfortunately, Ukraine still has not complied with either of those commitments.

Consequently, the United States on March 12, 2001, identified Ukraine as a Priority Foreign Country under the "Special 301" provisions of the Trade Act of 1974, and immediately initiated a Section 301 investigation. In April, U.S. officials consulted with the Ukrainian Government in Kiev. The United States also sought public comments on possible action under Section 301, including the possible suspension of duty-free treatment for Ukrainian products under the GSP. The United States held a public hearing on April 27, 2001.

More than a year has now passed since Ukraine made commitments to combat the massive optical media piracy in their country and more than four months since Ukraine was identified as a Priority Foreign Country. Credible reports indicate that large volumes of optical media products continue to be pirated in Ukraine. Thus the U.S. Government felt compelled to suspend GSP treatment of Ukrainian products. This suspension will take effect approximately 10 working days from the date of publication in the Federal Register notice announcing the U.S. decision. If Ukraine continues to fail to honor its commitments to stop the ongoing piracy and to establish a strong optical media licensing regime to prevent future piracy, then the U.S. Government may also act to impose trade sanctions on Ukraine.

The United States is currently seeking public comments and will hold a public hearing with regard to whether trade sanctions should be imposed against certain products. This hearing will also review whether sanctioning such products would encourage Ukraine to provide adequate protection of intellectual property rights or if it would adversely affect U.S. economic interests. The United States is particularly interested in potential impacts on U.S. small or medium-size businesses, so that any adverse affects on such businesses can be minimized. Complete information on the requirements for submitting comments and participating in the public hearing, as well as the proposed sanctions list, will soon be set forth in the Federal Register notice, and will be posted on the USTR web site (www.ustr.gov). For a copy of the Ukrainian products covered under GSP, go to www.dataweb.usitc.gov/scripts/tariff/toc.html.

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